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RUEHMD/AMEMBASSY MADRID 3840
RUEHFR/AMEMBASSY PARIS 0686
RUEHRB/AMEMBASSY RABAT 8512
RUEHC/DEPT OF LABOR WASHDC
RUCPDOC/DEPT OF COMMERCE WASHDC

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SIPDIS

SENSITIVE

C O R R E C T E D C O P Y (ADDED SENSITIVE CAPTION)

DEPARTMENT PLEASE PASS TO USTR FOR PAUL BURKHEAD
DEPARTMENT PLEASE PASS TO COMMERCE FOR NATHANIEL MASON
STATE FOR NEA/MAG

E.O. 12958: N/A
TAGS: AMCHAMS EAID ECON EFIN ETRD MO
SUBJECT: MOROCCO'S TEXTILE SECTOR IS IN TROUBLE

REF: A. 09 RABAT 00039
¶B. 08 RABAT 1084

¶1. (SBU) Summary: With the economies of Morocco's principal textile trading partners - France, Spain, and the United Kingdom - slowing, the Moroccan Association of Textile and Industries (AMITH) has sounded the alarm about prospects for the sector, which typically constitutes a third of Moroccan exports and the bulk of industrial employment. Morocco's textile exports fell by 7.5 percent in the first nine months

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of 2008 compared to the same period in 2007, and the Secretary General of AMITH expects this figure to easily reach ten percent in 2009. Moroccan officials have promised to assist the country's textile sector, but industry leaders complain that the government's response has lacked urgency. While the prognosis is somber, bilateral trade between the U.S. and Morocco could benefit as Moroccan industry leaders look to expand their export destinations. End Summary.

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Europe's Economic Slowdown Felt in the Kingdom
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¶2. (SBU) Morocco's textile sector is in trouble. The economic slowdown in Europe, the destination of 92 percent of Moroccan textiles, coupled with low cost competition from Egypt and China, has left the industry on the ropes. Textile exports fell by 7.5 percent in the first nine months of 2008 compared to the same period in 2007. This figure will reach ten percent in 2009 as the economies of Morocco,s principal textile trading partners - France, Spain, and the United Kingdom - slow further, says Karim Tazi, Secretary General of the Moroccan Association of Textile and Industries (AMITH).

¶3. (SBU) Tazi pointed out that Spanish companies like Inditex (owner of Zara and Massimo Dutti)and Mango, who count on Moroccan manufacturers to produce their finished apparel, registered a 20 percent decrease in their European sales in
¶2008. While neither has yet announced plans to scale back its production in Morocco, analysts see such a step as inevitable in the second quarter of 2009. Tazi also highlighted a more severe case in which more than half a dozen Moroccan textile factories have already stopped production and laid off over 2,000 workers, despite efforts to manage their fixed costs

and wait out the crisis. The Ministry of Employment, however, reported the week of January 26 that close to 50,000 jobs were lost in the textile sector in 2008.

Further Pressure from Regional Competitors

¶4. (SBU) Industry officials note that the European slowdown is affecting a sector that was already in difficulty as a result of low cost competition from Egypt and China. Kean-Francois Limantour, head of the Euro-Mediterranean Center for Textile and Clothing Managers (CEDITH), argues one of the prime factors of this trend is Morocco,s relatively high cost of production. The Moroccan hourly minimum wage, he notes, is 30 percent higher than in Tunisia and 60 percent higher than in Egypt. A Werner International study recently identified another competitive disadvantage: the fact that Moroccans work an average of 1960 hours per year, due to labor regulations, compared to 2200 in Egypt and Tunisia. As a result, Morocco's textile productivity per year is significantly less than its regional competitors. Egypt has consequently increased its exports to Europe by seven percent in the first nine months of 2008 compared to a 7.5 percent decrease in exports from Morocco to the continent.

¶5. (SBU) Tazi adds that the interaction of the two factors has had a crippling impact on Morocco's textile sector. According to government officials, local manufactures have been slow to raise investment, introduce new technologies, and adapt to the new, more competitive, business environment. The sector has pinned its hopes on the fast fashion trend, led by Zara and Mango, in which European retailers leave nothing in a store for more than a month, and set short production deadlines of weeks rather than months. Morocco had a natural advantage in meeting this demand, producers believed, arguing that China and its Middle East competitors are too far away to meet Europe,s deadline. Yet, Tazi notes that this specific retail model relies on middle class consumers in Europe, and is likely to be impacted more than any other by the current economic crisis.

Morocco's Textile Sector Reacts

¶6. (SBU) On January 14, Morocco's textile industry organized a forum in Rabat to discuss its concerns. Industry leaders warned of imminent layoffs and closing factories and appealed for urgent government assistance. Specifically, AMITH requested that the Government of Morocco (GOM) focus on employment retention and a decrease of fixed costs including utilities. Industry leaders concede that more than government support is required, however. Morocco needs a supply chain revolution with more information technology, more training in management, and more training of workers. This will enable Morocco to enter the high-end fashion industry, which has traditionally not been susceptible to fluctuations in the economy, says Tazi.

Government of Morocco (In)Action

¶7. (SBU) In the industry's view, Morocco's textile sector will continue to wither away in the absence of governmental assistance. Industry leaders complain that the GOM has been slower than others in the region in reacting to the sector's needs. Government officials respond to criticism by pointing to a USD 62.5 million initiative aimed at bolstering Morocco's exports and the establishment of a fund to provide short term financing to help firms innovate, but only a limited amount of funding has been made available, according to Tazi. Similarly, industry leaders say, there has been no follow through with the government's examination of credit guarantees for export companies and tax relief as possible solutions. (Note: Morocco's corporate tax rate is 20 percent higher than most of its competitors in the region. End Note.) Industry leaders have also urged government officials to

honor its commitment to partially reimburse the training costs for employees in the sector.

Comment

¶8. (SBU) While engaging industry leaders is an important first step in addressing the problems plaguing the textile sector, it remains to be seen whether government support will be sufficient to stem its downhill slide. Europe's recession has highlighted competitive weaknesses that already existed here, and increased the challenges for a sector that was already losing ground. Given the importance of the sector to industrial employment, further government assistance is likely. Whether it has a lasting impact, however, will depend on whether Morocco's textile sector takes advantage of it to renew its efforts to diversify its product range, develop new export destinations, increase productivity, and increase its competiveness in the region. This may lead Moroccan producers to take another look at the American market, which to date they have done little to exploit, despite the opportunities offered by the free trade agreement. (Note: In 2008, only three percent of Moroccan textiles were exported to the U.S. End Note.)
MILLARD